



**Jiwa Bio-Pharm Holdings Limited**

**積華生物醫藥控股有限公司\***

*(incorporated in Bermuda with limited liability)*

Annual Report

**2004**



*\* for identification only*

## CORPORATE INFORMATION

### Board of Directors

#### *Executive Directors*

Mr. Lau Yau Bor (*Chairman*)

Mr. Lau Kin Tung (*Vice Chairman and  
Chief Executive Officer*)

Madam Chan Hing Ming

#### *Independent non-executive Directors*

Mr. Choy Ping Sheung

Mr. Soo Ping Shu, Samuel

### Company secretary

Mr. Hoe York Joo (AHKSA, ACCA)

### Authorised representatives (for the purpose of the Listing Rules) and process agents (under Part XI of the Companies Ordinance)

Mr. Lau Yau Bor

Mr. Lau Kin Tung

### Audit committee

Mr. Choy Ping Sheung

Mr. Soo Ping Shu, Samuel

### Registered office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### Head office and principal place of business in Hong Kong registered under Part XI of the Companies Ordinance

2904 & 2906, Tower One

Lippo Centre

89 Queensway, Central

Hong Kong

### Auditors

KPMG

*Certified Public Accountants*

### Legal advisers to the Company

#### *As to Hong Kong law:–*

Sidley Austin Brown & Wood

#### *As to Bermuda law:–*

Conyers Dill & Pearman

### Principal bankers

#### *in Hong Kong: –*

Nanyang Commercial Bank Ltd.

151 Des Voeux Road Central

Hong Kong

#### *in the PRC: –*

Bank of China

515 Beijing Road

Kunming City, Yunnan Province

The PRC

Industrial Commercial Bank of China

62 Chun Cheng Road

Kunming City, Yunnan Province

The PRC

### Principal share registrar and transfer office

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

### Hong Kong branch share registrar and transfer office

Standard Registrars Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### Company website

[www.jiwa.com.hk](http://www.jiwa.com.hk)

### Stock code

2327

## FINANCIAL HIGHLIGHTS

	2004 HK\$'000	2003 HK\$'000	% Change between 2004 and 2003
Turnover	202,950	188,762	7.5%
Gross profit	107,312	91,424	17.4%
Profit from operations	58,855	45,275	30.0%
Profit attributable to shareholders	41,019	30,813	33.1%
Total assets	327,434	181,961	79.9%
Total bank borrowings	93,966	35,819	162.3%
Shareholders' funds	164,168	81,740	100.8%
<i>Business performance ratios:</i>			
Return on total assets (%)	18.0%	24.9%	(27.7%)
Return on shareholders' funds (%)	25.0%	37.7%	(33.7%)
Gross profit margin (%)	52.9%	48.4%	9.3%
Net profit margin (%)	20.2%	16.3%	23.9%
Current ratio	3.69	1.78	107.3%
Quick ratio	3.33	1.44	131.3%
Gearing ratio (%)	28.7%	19.7%	45.7%

Definitions for business performance ratios:

Return on total assets	$\frac{\text{Profit before interest and tax}}{\text{Total assets}}$	x	100%
Return on shareholders' Funds	$\frac{\text{Profit attributable to shareholders}}{\text{Shareholders' funds}}$	x	100%
Gross profit margin	$\frac{\text{Gross profit}}{\text{Turnover}}$	x	100%
Net profit margin	$\frac{\text{Profit attributable to shareholders}}{\text{Turnover}}$	x	100%
Current ratio	$\frac{\text{Total current assets}}{\text{Total current liabilities}}$		
Quick ratio	$\frac{\text{Total current assets excluding inventories}}{\text{Total current liabilities}}$		
Gearing ratio	$\frac{\text{Total bank borrowings}}{\text{Total assets}}$	x	100%

## MILESTONES FOR THE YEAR

### April 2003

Construction of the new manufacturing plant of the Group in Kunming City was commenced. The project was listed as a significant provincial technology advancement project by the Economic and Trade Commission of Yunnan Province, which approved a RMB1,700,000 interest grant to the Group.



### May 2003

The Group made donations to the Severe Acute Respiratory Syndrome Prevention Fund of the Kunming City.



### June 2003

The Group's reception of visiting officials from the Drug Administration of Yunnan Province, Oversea Union of Yunnan Province and The Department of Foreign Trade and Economic Cooperation of Yunnan Province.



### July 2003

The Group successfully developed and launched Reduced Glutathione Sodium for Injection, a new product under the Group's brand name of「松泰斯」.



1. The officials of Yunnan Province and directors of the Group at the ribbon cutting ceremony of construction commencement
2. The officials of Drug Administration of Yunnan Province and directors of the Company at foundation laying ceremony
3. The Group attended the appreciation ceremony for SARS donations
- 4.5.6. Officials of government bodies visited the Group and had meetings with Company management
7. New Drug「松泰斯」
8. The Executive Deputy Governor of Yunnan Province Qin Guangrong visited the Company's booth at the Kunming Fair and had discussion with Company Chairman, Mr. Paul Lau
9. Mr. Lau Kin Tung, on behalf of the Group, signed an export agreement, with senior government officials attended the signing ceremony
10. "Double Distinguished Enterprises" certificate
11. A scene of sales training
- 12.13. The successful listing of the Group on the Hong Kong Stock Exchange
14. The satellite symposium of Artrodar; nationwide experts of Rheumatology attended

## MILESTONES FOR THE YEAR

### August 2003

The Group participated in the Kunming Fair and Yunnan Jiwa Pharm-Tech Co. Ltd ("YJPT") signed agreements on raw material exports amounting to USD71,725,000. The Kunming plant of the Group was appraised as the "Double Distinguished Enterprise" in the year of 2002 by the China Association of Enterprises with Foreign Investment.



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### September 2003

Graduation of the first sales team from the Group's special second tier market sales training programme. They were assigned to promote the Group's products in the second tier markets to enhance the Group's coverage of the PRC market.



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### October 2003

The successful listing of the Group on the Main Board of the Hong Kong Stock Exchange Limited on 14 October 2003 marked an important chapter in its development. The Group received valid applications for 2,360,676,000 shares, equivalent to approximately 174.9 times the public offer shares originally available after deducting the 1,500,000 public offer shares available for subscription by eligible full-time employees of the Group in Hong Kong.



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### November 2003

The Group sponsored the 9th Annual Conference of the Chinese Rheumatology Association. During which satellite symposium was held for Artrodar, the worldwide patented osteoarthritis drug which the Group expected to launch in the PRC in December 2004.



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## MILESTONES FOR THE YEAR

December 2003

Triamcinolone Acetonide for injection was awarded the “Yunnan Famous Brand Award” by the Yunnan Technology and Quality Administration.



15

January 2004

Construction work of the first phase of the new manufacturing plant in Kunming National Hi-technology Industry Development Zone, Kunming City, was completed. 8 new production lines would start to operate in the near future.



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February 2004

The Group acquired YJPT which would bring to the Group a new area of growth in raw material exportation, and extend the Group's vertical integration to raw material research and manufacturing.



19

March 2004

Mr. Paul Lau, the Company Chairman, was accredited the Outstanding Plant Management Award.



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15. The “Yunnan Famous Brand” Award for Triamcinolone Acetonide

16. The outlook of the new plant makes an impressive sight; it marks the Group's new platform of technology development

17. Powder for injection production line

18. Prefilled syringe liquid for injection production line, the only one in the Yunnan Province, with machinery and technology imported from Germany

19. YJPT is already undergoing with various scientific research projects

20. Company Chairman, Mr. Paul Lau, was accredited with the “Outstanding Plant Management Award”

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors, I am pleased to present the first annual results of Jiwa Bio-Pharm Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") since its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 14 October 2003.



The successful listing of the Group marked an important chapter in its development. The listing provides an alternative funding platform for its development projects or new areas of growth. The enhanced corporate image would also help us in attracting talents, the very basis upon which the Group's strategies can be realized. The board of directors would always hold good corporate governance policies dear in their hearts, remembering always to act in the best interests of all shareholders.

I am confident of the development and prospects of the Group following the listing, and believe that it will continue to track its success in the past and scale new heights in the future.

### RESULTS

The Group achieved significant growth in turnover and profit for the financial year ended 31 March 2004 (the "Period"). The Group's turnover increased by 7.5% over the corresponding period to approximately HK\$203.0 million, and operating profit likewise increased 30.0% to approximately HK\$58.9 million. Profit attributable to shareholders of the Group increased by 33.1% to HK\$41.0 million over the corresponding period and earnings per share increased by 11.4% to approximately HK 9.8 cents.

### FINAL DIVIDEND

The board of directors proposed a final dividend of HK 1.3 cents per share of the Company ("Share") to shareholders whose names appear on the register of members on 23 September 2004 (Thursday). The dividend will be payable on 30 September 2004 (Thursday).

### THE GROUP

The Group was established in Hong Kong in 1987. Through the years, we have developed our business in three key areas, namely self manufactured products (pharmaceutical products segment), acting as exclusive agents in the PRC market for European product brands (trading segment), and the distribution of health care products in Hong Kong (health care products segment).



To facilitate the Group's strategy of introducing world-class new drugs to the PRC market, the Group has set up a vertically integrated structure incorporating its research and development, manufacturing and pharmaceutical distribution network. The Group established its first manufacturing plant in Kunming, the PRC, in 1993 for the manufacture and sale of pharmaceutical products in the PRC. Presently the



## CHAIRMAN'S STATEMENT

plant has 5 product lines that have obtained Good Manufacturing Practice ("GMP") Certificates, issued by the State Food and Drug Administration of the PRC ("SFDA"), including powder for injection (Cephalosporins), powder for injection (non-betalactamase), small volume parenteral solution (including hormone), tablets, granules (penicillins) and capsules (penicillins, cephalosporins). As from the year 2002, the production plant was accredited as one of the "Ten Supporting Pharmaceutical Manufacturing Enterprise of Yunnan Provincial People's Government" for consecutive years.



As at 31 March 2004, the Group had research and development staff numbering more than 20, and this team had extensive experience in scientific development and regulatory controls of pharmaceutical-related products in the PRC. The Group also forms strong alliances with research institutes in the PRC both to complement our expertise and to shorten the lead time for the development of new products. The Group has successfully developed and manufactured 28 pharmaceutical and health care products in the PRC.



As for the trading segment, the Group acts as exclusive agent in the PRC market for 3 pharmaceutical products from European pharmaceutical companies. The Group also developed and manufactured 7 health-care products in the PRC that were distributed in Hong Kong.



One of the Group's competitive strength has always been its marketing capability. Currently, the Group has appointed over 130 exclusive marketing agents, covering 27 provinces and autonomous regions across the PRC. In Hong Kong, a marketing team of 6 staff and more than 5,300 independent distributors are distributing its health care products.

The Group's focus on maintaining a broad product base would allow it to survive as a whole despite adverse market conditions of individual products, and at the same time opportunity to

improve margins via change of product mix towards higher margin items. This advantage was clearly demonstrated in the current financial year.

### BUSINESS REVIEW

I would refer you to the section on "Management Discussion and Analysis" for a detailed business review of the year. In particular, achievements of the current financial year is not only limited to financial results, but more importantly the groundwork is being laid for the expansion of the Group's production capability and its development of new products, all of which I believe will bear fruit in the coming future.

### PROSPECT

2005 would be a year of solid growth for the Group.



## CHAIRMAN'S STATEMENT

A series of new products being launched would provide the impetus for growth. In the pharmaceutical products segment, the production license for Loratadine tablet was obtained in May 2004 and the production license for Somatostatin for injection is expected to be obtained in December 2004. In the trading segment, two important new products, namely Synthetic Salmon Calcitonin for treating osteoporosis (already launched in June 2004) and Artrodar (worldwide patented osteoarthritis drug) with expected launch in December 2004, are anticipated to enhance operating results.



The Group expects to obtain new GMP certificates and to commence operations on 6 production lines in 2005. To improve market penetration in the PRC, the Group has planned to set up two new marketing divisions, one for over-the-counter promotion, and the other to distribute in the rural areas.

The economic recovery from Severe Acute Respiratory Syndrome ("SARS") epidemic last year, coupled with an aging population in Hong Kong, leads to a robust growth of the Traditional Chinese Medicine ("TCM") market in Hong Kong. TCM registrations in Hong Kong had been implemented since 19 December 2003, which would result in a much more disciplined market and consumer confidence in TCMs would grow in the foreseeable future. In view of these favourable factors, the Group had submitted registration for more than 20 new TCMs with differing therapeutic actions in Hong Kong on or before 30 June 2004. This is an area where the Group would increase its commitments over previous years, and which the Group would also expect promising return.

Besides enhancing business operations in production capabilities, research and development, quality control and distribution network, the Group would also endeavour to seek suitable acquisition targets which would include biotechnology companies and TCM plants.

### CORPORATE GOVERNANCE

On 1 January 2004, the Group appointed Mr. Lau Kin Tung as CEO to lead the management team. The separation of the roles of Chairman and Chief Executive represents a first step towards the Group's desire on good corporate governance. The Group would also increase its number of independent non-executive directors to three shortly and to work on detailed corporate governance policies.

### APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to all our customers, suppliers and shareholders of the Company. I would also like to express my deep appreciation to all members of our staff, in particular to the board of directors and the senior management, who have devoted their efforts on the Group's development during the year and the successful listing of the Group on the Main Board of the Stock Exchange of Hong Kong. The Group would continue to enhance its competitiveness and endeavor to increase shareholders' value.

**Lau Yau Bor**  
*Chairman*

Hong Kong, 6 July 2004

## INTERVIEW WITH THE CEO

### 1. Please describe in brief the business model of the Group.

The Group's core business strategy is to be among the first to launch world class pharmaceutical products new to the PRC, either by acting as exclusive agents for European product brands (trading segment) or in promoting self manufactured products (pharmaceutical products segment).

Most of these products already have successful track records since their launch in developed countries by other pharmaceutical companies. However these products are still not available in the PRC, and we are working towards being the first to launch them in the PRC.

These products will be classified as "new drugs" under the definition of the SFDA. These new drugs will be protected from market competition by SFDA for a certain "monitoring period" or via patent registration in the PRC.

Critical success factors in implementing such a strategy include extensive research and development, versatile production capabilities, as well as a strong distribution network. The Group is strengthening its core competencies further in these areas.

### 2. Who are the major competitors of the Group?

Considering the Group's three different business segments and its broad product base, we cannot identify any particular competitor to the Group as a whole. Instead the Group performs competition analysis by individual product or product category. The Group's focus on maintaining a broad product base would allow it to survive as a whole despite adverse market conditions of individual products, and at the same time opportunity to improve margins via change of product mix towards higher margin items.

### 3. What is the reason for the increase in gearing ratio, from 19.7% to 28.7%?

The increase in gearing ratio was mainly due to the increase in bank loans which was used partly to finance the Group's construction of the new plant in Kunming and partly to reserve funds for possible acquisition opportunities that may arise. The gearing ratio was calculated based on the Group's total bank borrowings of approximately HK\$93.9 million (2003: approximately 35.8 million) over the Group's total assets of approximately HK\$327.4 million (2003: approximately HK\$182.0 million).



## INTERVIEW WITH THE CEO



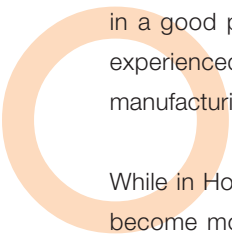
**4. Why is the growth on net profit higher than that of turnover?**

The significant increase in profit as compared to the rise in revenue was mainly the result of a change in sales mix in favor of higher margin products. During the Period, the Group placed a lot of effort not only to increase its distribution network but also to enhance the professional standard of its sales force. This results in both an absolute increase in sales revenue and also a more effective promotion on higher margin products. The Group's tight control over operating costs has also contributed to profits for the Group.

**5. Will the recent price cut in antibiotics in the PRC affect the Group's performance?**

China National Development and Reform Commission had recently reduced the official retail price of 24 antibiotics, which includes some of the Group's products. The price adjustment was mainly based on the tender price in different provinces and cities of the PRC. The Group's products being affected are mainly prescription drugs, which are mostly sold to hospitals by way of tender, and this reduction in price merely reflect the existing tender price, which we therefore believe would not affect our sales in a significant manner.

**6. While both the PRC and Hong Kong imposed stricter regulatory controls for pharmaceutical and TCM, how can the Group benefit from such policies?**



The entry barrier to the PRC pharmaceutical market would become higher when SFDA begin the enforcement of GMP compliance for all pharmaceutical manufacturers from 1 July 2004, as well as the relevant PRC authorities' intention to strengthen the legal framework for drug administration. The Group is in a good position to benefit from these increased and more stringent controls in the PRC, with its experienced management team, GMP certificates already in place, as well as the new state-of-the-art manufacturing plant.

While in Hong Kong, following official announcements of regulatory controls over TCM, the market will become more disciplined, resulting in improved consumer confidence. Cost of market entry will also increase. The Group's experience in product registration, quality control and production management would give it a clear competitive advantage.

**7. The sales growth seems to be slowing down in the past two years, what will be the growth rate of revenue in the coming future?**

Sales growth in recent years is mainly a result of increased market coverage. With only one new product being launched in the current financial year, the Group's effort was concentrated in changing sales mix in favour of higher margin items, instead of emphasizing revenue increase.

## INTERVIEW WITH THE CEO

However things would start to change. During the current financial year, we have obtained very encouraging results in new product development. As at 31 March 2004, the Group has 13 new drugs under development. Among them, Loratadine and Loratadine tablets has already obtained production license in May 2004. A new traded product, synthetic salmon calcitonin, an effective drug for osteoporosis, was launched in June 2004.

The new products would definitely bring exciting growth in both revenue and profit for the Group in the coming future.

### 8. What will be the Group's dividend policy in future?

Having regard to the Group's imminent completion of the new production facilities in the PRC, the Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the year ending 2005.





## MANAGEMENT DISCUSSION AND ANALYSIS



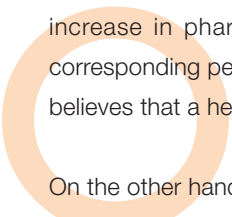
### STRATEGY AND MARKET

#### Strategy

The Group's core business strategy is to be among the first to launch new pharmaceutical products in the PRC, either by acting as exclusive agents for European product brands (trading segment) or in promoting self manufactured products (pharmaceutical products segment). Most of these products already have successful track records since their launch in developed countries by other pharmaceutical companies. The key advantage of introducing new products in the PRC is the enjoyment of a certain period of protection from market competition granted by the SFDA or via patent registration in the PRC. Critical success factors in implementing such a strategy include extensive research and development, versatile production capabilities, as well as a strong distribution network. The Group is strengthening its core competencies further in these areas.

Another area of business development that the Group would focus on is the distribution of health care products in Hong Kong. The year ended 31 March 2004 could be a watershed for TCM in Hong Kong, following official announcements of regulatory controls over TCM. The Group's experience in product registration, quality control and production management in the PRC give it a clear competitive advantage in a regulatory environment for TCMs in Hong Kong, the regulatory framework of which would be based significantly on that of the PRC's. Plans are being made by the Group to register a range of TCMs in Hong Kong covering various therapeutic areas in the near future.

#### Market



Statistics from the China National Development and Reform Commission of the PRC indicated a 13.13% increase in pharmaceutical industrial revenues over the first 2 months of 2004 as compared with the corresponding period last year, while industrial value added increased 16.08% over the same period. The Group believes that a healthy growth rate in the PRC pharmaceutical market is sustainable for years to come.

On the other hand, the entry barrier to the PRC pharmaceutical market would become higher when SFDA begin the enforcement of GMP compliance for all pharmaceutical manufacturers from 1 July 2004, as well as the relevant PRC authorities intention to strengthen the legal framework for drug administration. In April 2003, the SFDA's responsibilities was expanded to cover prescription, non-prescription, vaccines, biologicals, medical devices, drug packaging, functional foods, dietary supplements and cosmetics. The Group is in a good position to benefit from these increased and more stringent controls in the PRC, with its experienced management team and GMP licences already in place.

The aging population and SARS in 2003 help to accelerate the growth of the TCM market in Hong Kong. With the advent of TCM registration regulations in Hong Kong on 19 December 2003, products failing quality controls will steadily be eliminated while consumer confidence towards TCMs will increase.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS PERFORMANCE CONDITIONS

#### Business Review

The Period under review is both a period of consolidation as well as development for the Group. For the year ended 31 March 2004, the consolidated profit of the Group amounted to approximately HK\$41.0 million, representing an increase of approximately 33.1% over the previous year. Turnover for the Period was approximately HK\$203.0 million, representing an increase of approximately 7.5% over HK\$188.8 million for the year ended 31 March 2003. Earnings per share for the Period amounted to approximately HK9.8 cents, representing an increase of 11.4% over HK8.8 cents in 2003.

The business performance of the Group was affected in the first half of the Period by SARS, but recovered quickly when the epidemic abated in the third quarter. The significant increase in profit as compared with the rise in revenue was mainly the result of a change in sales mix in favor of higher margin products. During the Period, the Group placed a lot of effort not only to increase its distribution network but also to enhance the professional standard of its sales force. This results in both an absolute increase in sales revenue and also a more effective promotion on higher margin products. The Group's tight control over operating costs has also contributed to profits for the Group.

#### *Pharmaceutical products*

Pharmaceutical products account for the core of the Group's turnover, representing approximately 72.1% of the Group's turnover for the Period (2003: approximately 68.0%) which amounted to approximately HK\$146.3 million for the Period (2003: approximately HK\$128.4 million). The change represented an increase in turnover of approximately 13.9% as compared to the corresponding period in 2003. Segment results for pharmaceutical products also improved to approximately HK\$43.4 million (2003: approximately HK\$28.6 million), representing an increase of approximately 51.7% as compared to the corresponding period in 2003. The strong growth in turnover and results was primarily a result of an improved distribution network coverage in the PRC and a decline in certain raw material costs.

One of the Group's best selling products, Triamcinolone Acetonide for injection, was awarded the "Yunnan Famous Brand Award" by the Yunnan Technology and Quality Administration in December 2003.

The Group's quality control and research departments successfully obtained SFDA approvals to convert all product licences in the PRC from the provincial level to national level, as required by the SFDA. This also ensures that the production and distribution of the Group's products in the PRC comply fully with SFDA requirements. A new product, Reduced Glutathione Sodium for Injection, was successfully launched in July 2003 under the Group's brand name of "松泰斯". Two of the Group's SFDA Medicine category 2 new drugs, namely Risedronate Sodium and Edaravone, obtained clinical permits in April 2003 and February 2004 respectively. Sucralfate gel suspension, Somatostatin and Buflomedil Phridoxal Phosphate were either undergoing or have finished clinical studies by the end of the Period.



## MANAGEMENT DISCUSSION AND ANALYSIS



A potential SFDA Medicine category 3 new drug Tamsulosin, which is the only sustained release tablet of its type in the PRC, was being developed during the Period, and had already finished its clinical phase in March 2004. Other ongoing projects include development of generics in antibiotics and corticosteroids. These encouraging results would form the engine of strong growth for the Group in the coming years.

### *Trading*

The turnover of traded pharmaceutical products for the Period amounted to approximately HK\$48.1 million (2003: approximately HK\$51.3 million); representing a decrease of approximately 6.2% as compared to the corresponding period in 2003. The turnover of traded pharmaceutical products accounted for approximately 23.7% of the Group's turnover for the Period (2003: approximately 27.2%). Segment results for traded pharmaceutical products declined to approximately HK\$18.1 million (2003: approximately HK\$20.5 million); representing a decrease of approximately 11.7% as compared to the corresponding period in 2003. Decrease in turnover was primarily a result of retail price cut by the China National Development and Reform Commission in January 2003. However, sales started to pick up in the second half of the Period after a series of marketing campaigns in the first half of the Period, which the Group believes is sustainable.

Artrodar, the worldwide patented osteoarthritis product, has finished its clinical trial in the PRC in November 2003, with very positive results. The Group is expecting an import drug license for Artrodar in the next few months, which would contribute significantly to the Group's profits in the future.

### *Health care products*



The turnover of the Group's health care products amounted to approximately HK\$8.5 million for the Period (2003: approximately HK\$9.1 million); representing a decline of approximately 6.6% as compared to the corresponding period in 2003. The turnover of health care products accounted for only approximately 4.2% of the Group's turnover for the Period (2003: approximately 4.8%). Segment results for health care products improved to approximately HK\$2.3 million (2003: approximately HK\$1.1 million). Turnover of health care products declined primarily as a result of SARS in Hong Kong during the Period and the improvement in segment results was primarily a result of tighter control over costs. Although performance of the Group's healthcare products segment had been satisfactory this year, the Group is confident that profit contribution from this segment will grow significantly in the coming future with the registration of new TCMS.

### **Research and development**

Research and development costs incurred by the Group increased from approximately HK\$1.9 million in 2003 to approximately HK\$3.6 million in the Period; of which approximately HK\$1.9 million (2003: approximately HK\$0.4 million) was capitalised as deposit for product development and approximately HK\$1.7 million (2003: approximately HK\$1.5 million) charged as pre-production testing expenses during the Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Acquisition of research and development entity

The Group successfully acquired YJPT, a research and development entity in the PRC, on 7 February 2004 at a cost of US\$800,000 or approximately HK\$6.2 million. The acquisition cost represents the entire paid-up registered capital of YJPT. This is a connected transaction which was announced by the Group on 23 December 2003. YJPT has started important groundwork on corticosteroid biosynthesis technology and chemical synthetic production which the Group believes would provide very encouraging development in the near future. The transaction would bring to the Group a new era of strong growth in raw material exportation, and extending the Group's vertical integration to raw material research and manufacturing.

### Development of sales network

With the appointment of a new marketing director of the Group's pharmaceutical products, new sales force were trained and assigned to cover cities previously untapped by the Group in the PRC. Agreements were signed with new distributors, and new marketing plans were devised to promote products with their production licences just converted to the national level during the financial year. These include TCMs on diabetes, male hepatic functions, cardiovascular disorders, as well as antibiotics.

### Completion of new manufacturing plant

The first phase of construction of a new manufacturing plant of the Group was completed during the Period. The site covers approximately 34,000 square meters of land, with approximately 38,000 square meters plant floor area, and a state-of-the-art design allowing 8 new production lines of different dosage forms, including pre-filled syringes, powder injectables, liquid injectables, oral formulations, peptide synthesis and lyophilized powder injectables. Construction work on the new manufacturing plant of the Group was started on 1 April 2003 and the plant would be ready to commence full operations during the next financial year.

### PROSPECTS FOR THE YEAR 2005

The Directors believe that 2005 would be a year of solid growth. The PRC pharmaceutical market is expected to enjoy double digit growth despite the State's actions to 'cool' the economy as a whole. Meanwhile, the Hong Kong economy is expected to continue to show improvement with an increasing health awareness in the general population.

For the pharmaceutical products segment, the Group expects to obtain new GMP certificates and to commence operations on 6 production lines. Production licence for Loratadine tablet was obtained in May 2004 and the production licence for Somatostatin for injection is expected to be obtained in December 2004. Meanwhile a series of TCMs and antibiotics with production licences were launched in June 2004. These would impact on the Group's sales mix further in favor of high margin products.





## MANAGEMENT DISCUSSION AND ANALYSIS



Sales force is planned to be doubled during 2005. The Group has planned to set up two new marketing divisions in the PRC, one for over-the-counter promotion, and the other to distribute in the suburban areas of the PRC. This development in marketing would definitely improve sales channel management and geographical coverage of the Group in the PRC.

As for traded products segment, the Group expects the present growth in sales would continue. Segment results would improve as the Group is confident that its application to increase its product retail price in the PRC would be granted by the relevant authorities shortly. Two important new products, Synthetic Salmon Calcitonin (for osteoporosis) (already launched in June 2004) and Artrodar (expected to launch in December 2004), are anticipated to further improve sales in this segment.

Finally, health care products is an area where the Group has put in extra efforts over the previous years. The Group had submitted registration for more than 20 new TCMs with differing therapeutic actions in Hong Kong on or before 30 June 2004. The Group would appoint Hong Kong Standards and Testing Centre and Guangzhou Institute of Drug Control to perform chemical and toxicology studies on all its health care products.

The Directors believe that the current “economy-cooling” policy in the PRC would present many acquisition opportunities for the Group. Acquisition targets would include biotechnology companies and TCM plants.

### LIQUIDITY AND FINANCIAL RESOURCES



As at 31 March 2004, cash and cash equivalents of the Group totaled approximately HK\$87.3 million (2003: approximately HK\$41.9 million), of which approximately 21% are in Hong Kong dollars, 75% in Renminbi (“RMB”) and 4% in US dollars. The Group has for its hedging purposes a US\$1 million forward exchange contract banking facility in place as at 31 March 2004 and actively monitors its net foreign currency exposures. As the bulk of the Group’s transactions and assets are denominated in Hong Kong dollars, US dollars and RMB, the impact of foreign currency fluctuations is minimal and the current hedging facilities are considered sufficient for the near future.

Although the Group has consistently been in a liquid position, banking facilities have nevertheless been utilized partly to enjoy the interest grant concession offered by the PRC authorities (on long term bank loans to encourage fixed assets investment in 2003) and partly to reserve funds for possible acquisition opportunities that may arise.

As at 31 March 2004, the Group had aggregate banking facilities of approximately HK\$110.6 million of which approximately HK\$100.3 million was utilized (as to approximately HK\$74.6 million in long term bank loans, as to approximately HK\$19.3 million in short term bank loans and as to the balance of approximately HK\$6.4 million in letters of guarantee issued by the relevant banks to independent third parties). The Group’s aggregate banking facilities of approximately HK\$110.6 million includes approximately HK\$89.6 million equivalent in RMB denominated banking facilities. The utilized banking facilities of approximately HK\$100.3 million includes approximately HK\$89.6 million equivalent in RMB denominated bank borrowings.

## MANAGEMENT DISCUSSION AND ANALYSIS

Interest rates applicable to the RMB denominated bank borrowings are renewable annually and are fixed at 4.779% per annum for RMB20.0 million, 5.49% per annum for RMB25.0 million and 4.941% per annum for RMB50.0 million as at the end of the Period.

As at 31 March 2004, the gearing ratio was approximately 28.7% (2003: approximately 19.7%), calculated based on the Group's total bank borrowings of approximately HK\$93.9 million (2003: approximately 35.8 million) over the Group's total assets of approximately HK\$327.4 million (2003: approximately HK\$182.0 million).

As at 31 March 2004, approximately HK\$21 million of the Group's banking facilities was secured by certain properties owned by the Group and a corporate guarantee of the Company for HK\$28.28 million. The secured banking facilities were utilized as to approximately HK\$10.7 million as at the end of the Period, of which approximately HK\$4.3 million was utilized in mortgage loan and approximately HK\$6.4 million utilized in letters of guarantee.

### CHARGE OF ASSETS

As at 31 March 2004, certain of the Group's buildings with a net book value of approximately HK\$6.9 million were pledged to a bank to obtain credit facilities.

### CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2004 not provided for in the financial statements were as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Contracted for		
– acquisition of fixed assets	16,791	13,021
– acquisition of technical know-how	1,402	3,340
	<b>18,193</b>	16,361
Authorised but not contracted for		
– acquisition of fixed assets	–	52,757
	<b>18,193</b>	69,118

Funding for capital commitments is expected to come from the Group's internal resources.



## MANAGEMENT DISCUSSION AND ANALYSIS



### USE OF PROCEEDS

Net proceeds raised from the Share Offer (as defined in the Prospectus of the Company dated 30 September 2003 (the “Prospectus”)) of the Company amounted to approximately HK\$57.4 million including interest income and after deducting related expenses. Up until 31 March 2004, the net proceeds had been used as to approximately HK\$43.6 million, out of which approximately HK\$4.0 million had been used in land use rights, approximately HK\$24.0 million on construction of the new GMP compliant production complex, approximately HK\$12 million in respect of plant installations for the production of new pharmaceutical and health care products and approximately HK\$3.6 million on research and development costs. The remaining net proceeds, which has not yet been used, were deposited in banks in Hong Kong and the PRC. The use of proceeds was in line with the disclosure made in the Prospectus.

### CONTINGENT LIABILITIES

As at 31 March 2004, the Group has not provided any form of guarantees for any company outside the Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

### EMPLOYMENT REMUNERATION POLICY

As at 31 March 2004, the Group had approximately 333 employees. Total salaries and related costs incurred for the year ended 31 March 2004 amounted to approximately HK\$15.9 million. The Group's remuneration policies are in line with prevailing market practice and formulated on the basis of the performance and experience of individual employees. Apart from basic salaries, other staff benefits included provident funds and medical schemes. The Company may also grant share options to eligible employees under its share option scheme.



### REORGANISATION

During the Period under review, the Group has undergone the Reorganisation, details of which are disclosed in Appendix V to the Prospectus.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors in accordance to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company's shares were listed on the Stock Exchange on 14 October 2003. Since the Listing Date, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

### EXECUTIVE DIRECTORS

**Mr. Lau Yau Bor (劉友波先生)**, aged 66, is the Chairman, executive Director and one of the founders of the Group. Mr. Lau is responsible for the overall strategic development and direction of the Group. Mr. Lau also has over 22 years of experience in corporate management. He is a specially appointed council member of 雲南省政協港澳臺僑和外事委員會 (Overseas Chinese in Hong Kong, Macau and Taiwan and Foreign Affairs Committee of the Chinese People's Political Consultative Conference of Yunnan Province); a consultant to the seventh committee of 雲南省歸國華僑聯合會 (Returning Chinese Union of Yunnan Province); a vice chairman of 雲南海外經濟合作促進會; a council member of 雲南省外商投資企業協會 (Yunnan Province Foreign Investment Enterprises Association); a council member of 中國企業家協會 (China Enterprise Directors Association); a council member of 中國僑聯華商聯誼會 (Fraternity of Returned Overseas Chinese Businesses of the All-China Federation of Returned Overseas Chinese) and a council member of 雲南海外聯誼會 (Overseas Union of Yunnan Province).

Mr. Lau is also an honourable professor of the 昆明醫學院 (Kunming Medical Institute) and a senior member of the American Institute of Industrial Engineering. Mr. Lau graduated from the University of Hong Kong with a Master of Philosophy in Engineering in 1981.

Other than holding the directorship in the Company, Mr. Lau is also the director and shareholder of LAUs Holding Co. Ltd., a company incorporated in the British Virgin Islands, which holds as to 56% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Jiwa International Limited, Kunming Jida Pharmaceutical Co., Ltd ("Kunming Jida") and YJPT, subsidiaries of the Company.

Mr. Lau has entered into a service contract for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Details of Mr. Lau's interests in shares and underlying shares of the Company disclosable under the Securities and Futures Ordinance (the "SFO") are set out in the sub-section headed "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" in the Directors' Report.

**Madam Chan Hing Ming (陳慶明女士)**, aged 63, is one of the founders and an executive Director of the Group. Madam Chan assisted in founding the Group and has been responsible for the international trading, marketing and financial aspects of the Group. Madam Chan also has over 22 years of experience in corporate management. Madam Chan is the spouse of Mr. Lau Yau Bor, the Chairman of the Group.

Other than holding the directorship in the Company, Madam Chan is also the director and shareholder of MINGS Development Holdings Limited, a company incorporated in the British Virgin Islands, which holds as to 7% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Tech-Medi Development Limited, Jiwa International Limited, Kunming Jida and YJPT, subsidiaries of the Company.



## DIRECTORS AND SENIOR MANAGEMENT PROFILE

Madam Chan has entered into a service contract for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Details of Madam Chan's interests in shares and underlying shares of the Company disclosable under the SFO are set out in the sub-section headed "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" in the Directors' Report.

**Mr. Lau Kin Tung (劉建彤先生)**, aged 34, is the Vice-Chairman, executive Director and CEO of the Group. Mr. Lau joined the Group in June 1992. In 1993, Mr. Lau assisted in setting up Kunming Jida. Since then, Mr. Lau has been responsible for the international trading, research and development, marketing and distribution network aspects of the Group. Mr. Lau graduated from the University of Hong Kong with a bachelor's degree in business administration in 1992. Mr. Lau also obtained a master's degree in business administration from the University of Manchester in 2002 and a bachelor's degree in science (pharmaceutical studies) from the University of Sunderland in 2003. Mr. Lau is the son of Mr. Lau Yau Bor, the Chairman of the Group, and Madam Chan Hing Ming, an executive Director.

Other than holding the directorship in the Company, Mr. Lau is also the director and shareholder of WHYS Holding Co Ltd, a company incorporated in the British Virgin Islands, which holds as to 7% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Tech-Medi Development Limited, Jiwa Development Limited, Kunming Jida and YJPT, subsidiaries of the Group.

Mr. Lau has entered into a service contract for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Details of Mr. Lau's interests in shares and underlying shares of the Company disclosable under the SFO are set out in the sub-section headed "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" in the Directors' Report.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Choy Ping Sheung (蔡秉商先生)**, aged 56, is an independent non-executive Director. Mr. Choy had held senior management positions in Nanyang Commercial Bank and the China and South Sea Bank (Hong Kong Branch). Mr. Choy obtained a higher certificate in business studies (banking) from the Hong Kong Polytechnic in 1986. Mr. Choy was appointed as an independent non-executive Director in September 2003.

Mr. Choy has entered into a service contract with the Company for a term of one year commencing from 1 September 2003.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Choy is not related to any other directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Choy did not have any interests in the Shares within the meaning of Part XV of the SFO.

**Mr. Soo Ping Shu, Samuel (蘇秉樞先生)**, aged 73, is an independent non-executive Director. Mr. Soo has been admitted as a solicitor in Hong Kong since 1963. Mr. Soo is the founder and sole proprietor of Samuel Soo & Company, Solicitors. Mr. Soo is a Notary Public. Mr. Soo graduated from the University of Hong Kong with a bachelor's degree in arts in 1959 and passed the Part II of the Qualifying Examination of the Law Society of England & Wales in London in 1963. Mr. Soo was appointed as an independent non-executive Director in September 2003.

Mr. Soo has entered into a service contract with the Company for a term of one year commencing from 1 September 2003.

Mr. Soo is not related to any other directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Soo did not have any interests in the Shares within the meaning of Part XV of the SFO.

### SENIOR MANAGEMENT

**Mr. Hoe York Joo (何毓瑜先生)**, aged 42, is the secretary of the Company and the Chief Financial Officer of the Group. Mr. Hoe joined the Group in November 2001 and is currently responsible for the financial and accounting functions of the Group. He is also the director of YJPT, subsidiary of the Group. Mr. Hoe has over 11 years of experience in auditing, treasury, financial accounting and credit risk management. Mr. Hoe is an associate member of the Hong Kong Society of Accountants and a member of the Association of Chartered Certified Accountants. Mr. Hoe holds a bachelor's degree in accountancy from the National University of Singapore in 1986 and a master's degree in Business Administration from the University of Hong Kong in 1995.

**Mr. Li Hong Xiang (李鴻翔先生)**, aged 50, is the deputy general manager of Kunming Jida. Mr. Li joined the Group in January 1994 and is currently in charge of the production and GMP management functions of the Group. Mr. Li has over 20 years of experience in the pharmaceutical industry. Mr. Li completed professional studies in electrical engineering at 雲南廣視電視大學 (Yunnan Broadcasting Television University) in 1983 and advanced studies in business administration at 中國人民大學工商管理研修中心 (Business Administration Studies Centre of the University of the People's Republic of China) in 2001.

**Ms. Liu Chun Xia (劉春霞女士)**, aged 41, is the quality & technical director of the Group. Ms. Liu joined the Group in March 1997 and is currently in charge of the quality assurance department of the Group. She is also the director of YJPT, subsidiary of the Group. During 1983 to 1995, Ms. Liu held a position in 中國藥品生物制品檢定所 (PRC Pharmaceutical Production Review Bureau\*). Ms. Liu is a chief pharmacist and has received several awards from governmental authorities in the PRC, including 中國國家科學技術進步二等獎 and 中國



## DIRECTORS AND SENIOR MANAGEMENT PROFILE



衛生部醫藥衛生科學技術進步二等獎。Ms. Liu obtained a bachelor's degree in science from 雲南大學 (Yunnan University) in 1983.

**Dr. Mei Shuang Xi (梅雙喜博士)**, aged 33, is the chief officer of the research and development department of the Group. Dr. Mei joined the Group in February 2003 and is responsible for the research and development of new products of the Group. Dr. Mei obtained a bachelor degree in Chemistry from 西北師範大學 (Northwest Normal University) in 1994, a master's degree in Science from 蘭州大學 (Lanzhou University) in 1997 and a doctor's degree in science from the 中國科學院昆明植物研究所 (Laboratory of Phytochemistry, Kunming Institute of Botany) in 2001. During 2000 to 2002, Dr. Mei was the lecturer at 雲南大學 (Yunnan University). Dr. Mei has published articles in different journals (such as Chemical Research in Chinese Chemistries Chinese Chemical Letters) since 1997.

**Mr. Yuan Hong Bing, Hans (袁宏冰先生)**, aged 46, is the marketing director of Kunming Jida. Mr. Yuan joined the Group in June 2003 and is responsible for the sales and market development of the Group's products in the PRC. Mr. Yuan has over 14 years of experience in sales and marketing management. Before joining the Group, Mr. Yuan had worked for various national pharmaceutical companies in different regions of mainland China and had held senior positions in Eli Lilly Asia, the PRC operations of a U.S. pharmaceutical firm. Mr Yuan holds a master's degree in Public Health from China Medical University in 1988 and master's degree in Business Administration from China Europe International Business School in 1993.

**Mr. Zhu Yun Sheng (祝雲生先生)**, aged 53, is the sales and marketing manager and assistant of general manager of Kunming Jida. Mr. Zhu joined the Group in September 2001 and is responsible for the sales and market development of the Group's products in the PRC. Mr. Zhu has over 18 years of experience in the sales and marketing of pharmaceutical products. Prior to joining the Group, Mr. Zhu had been the head of sales department of 昆明制藥股份有限公司 (Kunming Pharmaceutical Corp.\*), and general manager of 昆明康普萊特制藥有限公司 (Kunming Complector Pharmaceutical Co. Ltd.). Mr. Zhu graduated from 中共中央黨校函授學院 (Chinese Communist Central Distance Learning Institute) with completion of professional economics study in 1994.

**Mr. Sze Ching Wa, Steven (施正華先生)**, aged 40, is the marketing director of Tech-Medi Development Limited. Mr. Sze joined the Group in February 2004 and is responsible for the sales and market development of the Group's health care products. Mr. Sze has over 10 years experience in the sales and promotion of health care products. Mr. Sze holds a bachelor's degree in Business Administration from the University of Hawaii at Manoa in USA in 1994.

\* for identification only

## DIRECTORS' REPORT

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2004.

### PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and sales of pharmaceutical products and health care products. The principal activities and other particulars of the subsidiaries are set out in note 18 to the financial statements.

The analysis of the principal activities of the Group during the financial year are set out in note 14 to the financial statements.

#### Major customers and suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	41.6%	
Five largest customers in aggregate (Note 1)	69.1%	
The largest supplier		14.2%
Five largest suppliers in aggregate		41.2%

Note 1: Within the five largest customers of the Group are Yunnan Pharmaceutical and Industrial Corporation Limited and Yunnan Jiwa Pharm Logistics Company Limited, both of whom are connected persons and details of their transactions with the Company are set out in note 33 to the financial statements.

Save as disclosed above, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2004 and the state of the Group's affairs as at that date are set out in the financial statements on pages 33 to 71.





## DIRECTORS' REPORT

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The directors of the Company recommend the payment of a final dividend of HK1.3 cents per share in respect of the year ended 31 March 2004.

### TRANSFER TO RESERVES

Profits attributable to shareholders of the Company, before dividends, of HK\$41.0 million (2003: \$30.8 million) have been transferred to reserves. Details of the movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statement.

### DIVIDENDS

No interim dividend was declared by the Company during the year ended 31 March 2004. The Directors have decided to recommend at the forthcoming annual general meeting to be held on 23 September 2004, the payment of a final dividend for the year ended 31 March 2004 of HK 1.3 cents per share in cash to be paid on or about 30 September 2004 to the shareholders of the Company whose names appear on the register of members of the Company on 23 September 2004.

Having regard to the Group's imminent completion of the new production facilities in the PRC, the Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the year ending 2005.

### CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from 15 September 2004 to 23 September 2004, both days inclusive, during which period no share transfers will be effected. In order to qualify for the proposed final dividend and for attending the annual general meeting of the Company to be held on 23 September 2004, all share transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4 p.m. on 14 September 2004.

### FIXED ASSETS

During the year, the Group acquired properties for approximately HK\$14.9 million and machineries for approximately HK\$1.1 million for the Group's factory. Details of these acquisitions and other movements in fixed assets are set out in note 15 to the financial statements.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 28 to the financial statements. Shares were issued during the year to broaden the capital base of the Company.

## DIRECTORS' REPORT

### DIRECTORS

The directors of the Company during the financial year were as follows:

#### Executive directors

Lau Yau Bor, Chairman  
Lau Kin Tung, Vice Chairman and Chief Executive Officer  
Chan Hing Ming

#### Independent non-executive directors

Choy Ping Sheung  
Soo Ping Shu, Samuel

The Company received confirmation of independence in respect of the year ended 31 March 2004 from each of the independent non-executive directors of the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Up to and as at the date of this report, the Company still considers the independent non-executive directors of the Company to be independent.

#### Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

#### Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures

The directors and chief executive of the Company who held office as at 31 March 2004 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning

## DIRECTORS' REPORT

of the SFO) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

### (i) Interests in issued Shares

	Personal interests (Note 1)	Family interests	Shares Corporate interests	Total number of Shares held	% of total issued Shares
Beneficial Interests					
Lau Yau Bor	15,468,000		280,000,000 (Note 3)	295,468,000	59.09%
Lau Kin Tung	2,266,000	–	35,000,000 (Note 4)	37,266,000	7.45%
Chan Hing Ming	–		35,000,000 (Note 2)	35,000,000	7.00%

Note:

1. The Shares are registered under the names of the directors and chief executive of the Company who are the beneficial owners.
2. Chan Hing Ming, the beneficial shareholder of 100% of the issued share capital of MINGS Development Holdings Limited, which owned 35,000,000 Shares at 31 March 2004.
3. Lau Yau Bor, the beneficial shareholder of 100% of the issued share capital of LAUs Holding Co Ltd which owned 280,000,000 Shares at 31 March 2004.
4. Lau Kin Tung, the beneficial shareholder of 100% of the issued share capital of WHYS Holding Co Ltd which owned 35,000,000 Shares at 31 March 2004.

### (ii) Interests in underlying Shares

The directors and chief executive of the Company have been granted options under the Company's share option scheme (the "Share Option Scheme"), details of which are set out in the section "Share Option Scheme" below.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## DIRECTORS' REPORT

### Share Option Scheme

The Share Option Scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any suppliers, consultants or advisers who have provided services to any company in the Group to take up options to subscribe for Shares. The Share Option Scheme shall be valid and effective for a period of ten years ending on 24 September 2013, after which no further options will be granted. The exercise price of options is the highest of the nominal value of the Shares, the closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant.

The total number of securities available for issue under the Share Option Scheme as at 31 March 2004 was 50,000,000 Shares (including options for 9,266,000 Shares that have been granted but not yet lapsed or exercised) which represented 10% of the issued share capital of the Company at 31 March 2004. A summary of the principle terms of the Share Option Scheme was disclosed in Appendix V to the Prospectus.

At 31 March 2004, one director and employees of the Company had the following interests in options to subscribe for Shares (closing market value per Share at 31 March 2004 was HK\$0.375) granted for a consideration of HK\$1 under the Share Option Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one Share.

	No. of options outstanding on adoption date of Share Option Scheme	No. of options outstanding at the year end	Date granted	Period during which options are exercisable	No. of Shares acquired on exercise of options during the year	Exercise price per Share	Market value per Share at date of grant of options
<b>Director</b>							
Lau Kin Tung	–	7,266,000	31 March 2004	31 March 2004 to 30 March 2009	–	HK\$0.377	HK\$0.375
<b>Employees</b>	–	2,000,000	31 March 2004	31 March 2004 to 30 March 2009	–	HK\$0.377	HK\$0.375

The options granted to the director are registered under the name of the director of the Company.

The share options granted are not recognized in the financial statements until they are exercised. The directors of the Company consider it is not appropriate to disclose the value of the share options granted during the period under the Share Option Scheme since any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain. The directors of the Company believe that the evaluation of share options based upon speculative assumptions would not be meaningful and would be misleading.

## DIRECTORS' REPORT

### *Substantial shareholders' and other persons' interests and short positions in Shares and underlying Shares*

As at 31 March 2004, the following persons (other than the directors or the chief executives of the Company), had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company were as follows:

Name	Number of Shares held	% of the issued share capital
LAUs Holding Co Ltd (Note 1)	280,000,000	56%
MINGS Development Holdings Limited (Note 2)	35,000,000	7%
WHYS Holding Co Ltd (Note 3)	35,000,000	7%

Notes:

1. LAUs Holding Co. Ltd., a company incorporated in the British Virgin Islands, is wholly owned by Lau Yau Bor. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in shares, underlying shares and debentures" above.
2. MINGS Development Holdings Limited, a company incorporated in the British Virgin Islands, is wholly owned by Chan Hing Ming. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" above.
3. WHYS Holding Co Ltd, a company incorporated in the British Virgin Islands, is wholly owned by Lau Kin Tung. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" above

Save as disclosed above, the Company had not been notified by any person (other than the directors or chief executives of the Company) who had interests or short positions in the Shares and underlying Share as at 31 March 2004 which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

### CONNECTED TRANSACTIONS

Details of connected transactions entered into by members of the Group during the year were disclosed as set out in notes 30 and 33 to the financial statements and the announcement of the Company dated 23 December 2003. Further details on conditions of waivers in respect of the continuing connected transactions were disclosed under "Connected transactions" section to the Prospectus.

The auditors of the Company have provided to the directors (including the independent non-executive directors) of the Company their letters stating that the Transactions (as defined under the sub-section headed "Connected transactions" in the section headed "Business" in the Prospectus) have received the approval of the board of directors of the Company, the Transactions were conducted in accordance with the terms of the relevant agreements governing the Transactions or, if there were no such agreements, on terms no less favourable than

## DIRECTORS' REPORT

those available to or from independent third parties, and total considerations of the Transactions for the year ended 31 March 2004 had not exceeded the respective limits as stated under the sub-section headed 'Connected transactions' in the section headed "Business" in the Prospectus.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year save and except for the agreements as stated in the sub-section headed "Connected transactions" in the section headed "Business" in the Prospectus and in the announcement of the Company dated 23 December 2003.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 March 2004, the Company had connected transactions with 雲南積華醫藥物流有限公司 (Yunnan Jiwa Pharm Logistics Co., Ltd.) ("YJPL"), a PRC equity joint venture established on 9 February, 2002 and is owned as to 93 per cent. by Jiwa Pharm & Chemicals Limited and as to 7 per cent. by YJPT. Jiwa Pharm & Chemicals Limited is owned as to 60 per cent. by Lau Yau Bor and as to 40 per cent. by Lau Kin Tung, who are both executive Directors of the Company. Details of the connected transactions with YJPL for the Period were disclosed in note 33 to the financial statements and the nature of the transactions together with non-competition deed disclosed in the sub-sections headed "Connected transactions" and "Non-Competition Undertakings" in the section headed "Business" in the Prospectus.

### Purchase, sale or redemption of the Company's listed securities

Save as set out in note 28 to the financial statements, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

### Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2004 are set out in note 22 to the financial statements.

### Group financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 72 and 73 of the annual report.





## DIRECTORS' REPORT



### Retirement schemes

The Group operates a Mandatory Provident Fund scheme for its employees in Hong Kong and participates in a defined contribution retirement scheme organized by the PRC municipal government for its PRC employees. Particulars of these retirement schemes are set out in note 25 to the financial statements.

### Compliance with the Code of Best Practice

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2004.

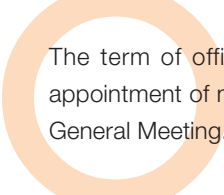
### Audit committee

The audit committee, comprising of two independent non-executive directors of the Company, Mr. Choy Ping Sheung (Chairman of the audit committee) and Mr. Soo Ping Shu, Samuel, had reviewed with the management of the Company and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group for the year ended 31 March 2004.

### SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors of the Company, the percentage of the Shares which are in the hands of the public exceeds 25% of the total number of issued Shares.

### AUDITORS



The term of office of KPMG will expire at the forthcoming Annual General Meeting. A resolution for the appointment of new auditors of the Company for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board of directors

### Lau Kin Tung

Vice Chairman and Chief Executive Officer  
Hong Kong, 6 July 2004

## AUDITORS' REPORT



Auditors' report to the shareholders of  
**Jiwa Bio-Pharm Holdings Limited**  
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 33 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in financial statements. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2004 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**  
*Certified Public Accountants*

Hong Kong, 6 July 2004

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Turnover</b>	4	<b>202,950</b>	188,762
Cost of sales		<b>(95,638)</b>	(97,338)
Gross profit		<b>107,312</b>	91,424
Other revenue	5	<b>387</b>	178
Other net (loss)/income	5	<b>(98)</b>	97
Selling expenses		<b>(24,521)</b>	(23,953)
Administrative expenses		<b>(22,414)</b>	(21,054)
Other operating expenses		<b>(1,811)</b>	(1,417)
<b>Profit from operations</b>		<b>58,855</b>	45,275
Finance costs	6(a)	<b>(1,273)</b>	(1,600)
<b>Profit from ordinary activities before taxation</b>	6	<b>57,582</b>	43,675
Taxation	7(a)	<b>(5,054)</b>	(3,930)
<b>Profit from ordinary activities after taxation</b>		<b>52,528</b>	39,745
Minority interests		<b>(11,509)</b>	(8,932)
<b>Profit attributable to shareholders</b>	10, 29	<b>41,019</b>	30,813
<b>Dividends attributable to the year:</b>			
Final dividend proposed after the balance sheet date	11	<b>6,500</b>	16,000
<b>Earnings per share</b>			
Basic	12	<b>9.80 cents</b>	8.80 cents
Diluted	12	<b>9.80 cents</b>	N/A

The notes on pages 40 to 71 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

at 31 March 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Non-current assets</b>			
Fixed assets	15	69,071	42,428
Construction in progress	16	61,664	4,520
Investment securities	17	1,148	–
Deferred tax assets	27(b)	5,701	6,179
		<b>137,584</b>	<b>53,127</b>
<b>Current assets</b>			
Inventories	19	18,145	24,480
Accounts and bills receivable	20	65,291	45,170
Prepayments and other receivables		16,217	17,264
Amount due from related companies		1,614	–
Tax recoverable	27(a)	1,256	–
Cash and cash equivalents	31	87,327	41,920
Total current assets		<b>189,850</b>	<b>128,834</b>
<b>Current liabilities</b>			
Bank loans and overdrafts	22	19,322	31,477
Accounts and bills payable	21	23,119	25,411
Amounts due to a related company	23	2,972	8,585
Accrued expenses and other payables		4,792	5,330
Tax payable	27(a)	1,295	1,444
Total current liabilities		<b>51,500</b>	<b>72,247</b>
<b>Net current assets</b>		<b>138,350</b>	<b>56,587</b>
<b>Total assets less current liabilities</b>		<b>275,934</b>	<b>109,714</b>
<b>Non-current liabilities</b>			
Bank loans	22	74,644	4,342
<b>Minority interests</b>		<b>37,122</b>	<b>23,632</b>
<b>Net assets</b>		<b>164,168</b>	<b>81,740</b>

# CONSOLIDATED BALANCE SHEET

at 31 March 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Capital and reserves</b>			
Share capital	28	5,000	2,200
Reserves	29	159,168	79,540
		<b>164,168</b>	<b>81,740</b>

Approved and authorised for issue by the board of directors on 6 July 2004

Lau Yau Bor	)	
	)	
Lau Kin Tung	)	Directors
	)	
	)	

The notes on pages 40 to 71 form part of these financial statements.

## BALANCE SHEET

at 31 March 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Non-current assets</b>			
Investment in subsidiaries	18	82,380	—
<b>Current assets</b>			
Amounts due from subsidiaries		46,139	—
Cash and cash equivalents	31	11,018	—
		57,157	—
<b>Current liabilities</b>			
Accrued expenses and other payables		84	—
<b>Net current assets</b>		57,073	—
<b>Net assets</b>		139,453	—
<b>Capital and reserves</b>			
Share capital	28	5,000	—
Reserves	29	134,453	—
		139,453	—

Approved and authorised for issue by the board of directors on 6 July 2004

Lau Yau Bor	)	
	)	
Lau Kin Tung	)	Directors
	)	
	)	

The notes on pages 40 to 71 form part of these financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
Shareholders' equity at 1 April		81,740	58,927
Net profit for the year	29	41,019	30,813
Dividends approved during the year prior to listing	11	(16,000)	(8,000)
Movements in share capital:			
– Capital elimination upon combination	28	(2,200)	–
– Issuance of shares for the acquisition of subsidiaries	28	200	–
– Contributed surplus arising from reorganisation	29	2,000	–
– Shares issued under the placing and public offer	28	1,500	–
– Net share premium received	29	55,909	–
Net increase in shareholders' equity arising from capital transactions with shareholders		57,409	–
Shareholders' equity at 31 March		164,168	81,740

The notes on pages 40 to 71 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Operating activities</b>			
Profit from ordinary activities before taxation		57,582	43,675
Adjustments for:			
– Interest income		(269)	(158)
– Interest expense		1,273	1,600
– Depreciation		3,813	3,214
– Impairment loss on fixed assets		–	804
– Gain on disposal of fixed assets		(28)	–
<b>Operating profit before changes in working capital</b>		<b>62,371</b>	<b>49,135</b>
Decrease/(increase) in inventories		6,335	(5,187)
(Increase)/decrease in accounts and bills receivable		(20,121)	12,732
Decrease/(increase) in prepayments and other receivables		9,523	(11,667)
(Increase)/decrease in amount due from related companies		(1,614)	8,451
Decrease in accounts and bills payable		(2,292)	(4,651)
(Decrease)/increase in accrued expenses and other payables		(1,266)	1,897
<b>Cash generated from operations</b>		<b>52,936</b>	<b>50,710</b>
Tax paid			
– Hong Kong profits tax paid		(4,435)	(2,417)
– Taxation outside Hong Kong paid		(1,546)	(1,840)
<b>Net cash from operating activities</b>		<b>46,955</b>	<b>46,453</b>

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Investing activities</b>			
Payment for purchase of fixed assets and construction in progress		(65,163)	(19,157)
Proceeds from disposal of fixed assets		56	–
Payment for acquisition of a subsidiary, net of cash acquired	30	3,671	–
Interest received		269	158
<b>Net cash used in investing activities</b>		<b>(61,167)</b>	<b>(18,999)</b>
<b>Financing activities</b>			
Proceeds from bank loans		66,039	35,599
Repayment of bank loans		(40,222)	(30,072)
Interest paid		(3,286)	(1,709)
Net proceeds from issuance of new shares		57,409	–
Dividends paid prior to listing		(16,000)	(17,007)
Dividends paid to minority shareholders		(3,632)	–
<b>Net cash generated from/(used in) financing activities</b>		<b>60,308</b>	<b>(13,189)</b>
<b>Net increase in cash and cash equivalents</b>		<b>46,096</b>	<b>14,265</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>41,231</b>	<b>26,966</b>
<b>Cash and cash equivalents at the end of the year</b>	31	<b>87,327</b>	<b>41,231</b>

## Non-cash transactions

- (i) On 18 April 2002, the registered capital of Kunming Jida Pharmaceuticals Company Limited ("KJP") was increased from Rmb37,710,000 to Rmb53,710,000. To maintain their respective shareholding percentages, Jiwa Pharmaceuticals Limited, a subsidiary of the Company, and Yunnan Pharmaceutical and Industrial Corporation Limited, the minority shareholder, have capitalised the dividend receivable from KJP of Rmb10,400,000 and Rmb5,600,000 respectively, for reinvestment in KJP.
- (ii) On 25 April 2003, the registered capital of KJP was further increased from Rmb53,710,000 to Rmb71,710,000. This was effected through the capitalisation of enterprise expansion fund of Rmb3,000,000 and dividends receivable by Jiwa Pharmaceutical Limited and Yunnan Pharmaceutical and Industrial Corporation Limited of Rmb9,750,000 and Rmb5,250,000 respectively.
- (iii) On 31 July 2002, Yunnan Jiwa Pharm Logistics Company Limited assigned certain of its accounts receivable totalling Rmb13,166,000 to KJP in settlement of its liability to KJP.

The notes on pages 40 to 71 form part of these financial statements.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1 REORGANISATION

Jiwa Bio-Pharm Holdings Limited (“the Company”) was incorporated in Bermuda on 19 June 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) as part of the reorganisation (the “Reorganisation”) of the Company and its subsidiaries (collectively referred to as the “Group”). Pursuant to the Reorganisation, the Company became the holding company of the Group on 24 September 2003. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 14 October 2003.

## 2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the periods presented, rather than from 24 September 2003. Accordingly, the consolidated results of the Group for the years ended 31 March 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheet at 31 March 2003 is a combination of the balance sheets of the Company and its subsidiaries at 31 March 2003. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

Further details of the Reorganisation are set out in the prospectus dated 30 September 2003 issued by the Company.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Subsidiaries

A subsidiary is an enterprise controlled by the Group. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from its activities.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment a subsidiary is stated at cost less any impairment losses (see note 3(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

### (d) Investment securities

The Group's policies for investments in securities other than investments in subsidiaries are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the consolidated balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the consolidated income statement, such provisions being determined for each investment individually.
- (ii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated income statement as they arise.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Fixed assets

- (i) Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 3(g)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

- (iii) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Land and buildings	20 – 30 years
Motor vehicles	3 years
Plant and machinery	5 – 15 years
Furniture, fixtures and equipment	5 years

- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

### (f) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made.

### (g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- construction in progress;
- investment in subsidiaries; and
- investment securities.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.



# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Impairment of assets (Continued)

#### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### (ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

### (h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (i) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly to equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Income tax (Continued)

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
  - in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
  - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.
- (v) Tax refund is recognised in the consolidated income statement as a reduction of the tax expense when the right to receive payment is established, which is taken to be the point of time when the relevant approval document is issued by the relevant government authorities.

### (k) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to retirement benefit schemes are recognised as an expense in the consolidated income statement as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (m) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

#### (i) Sale of goods

Revenue is recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

#### (ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

#### (iii) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the consolidated income statement as revenue on a systematic basis over the useful life of the asset.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an enterprise outside Hong Kong, the cumulative amount of the exchange differences which relate to that enterprise is included in the calculation of the profit or loss on disposal.

### (o) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format. The Group operates predominantly in the PRC. Accordingly, geographical segment information is not presented.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions balances are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

## 4 TURNOVER

The Group is principally engaged in the manufacturing and sales of pharmaceutical products and health care products.

Turnover represents the sales value of goods sold less return and discounts.

## 5 OTHER REVENUE AND NET (LOSS)/INCOME

	2004 \$'000	2003 \$'000
<b>Other revenue</b>		
Interest income	269	158
Others	118	20
	<b>387</b>	<b>178</b>
<b>Other net (loss)/income</b>		
Net exchange loss	(126)	(82)
Net gain on disposal of fixed assets	28	–
Others	–	179
	<b>(98)</b>	<b>97</b>



# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2004 \$'000	2003 \$'000
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	3,286	1,709
Less: Borrowing costs capitalised into construction in progress	(2,013)	(109)
	1,273	1,600
Annual capitalisation rate of borrowing costs	5.0%	4.8%
(b) Staff costs:		
Salaries, wages and other benefits	14,989	10,211
Contributions to defined contribution plans	947	724
	15,936	10,935

Note: Staff costs include operating lease charges in respect of premises totalling \$809,959 (2003: \$640,000) which are also included in total operating lease charges in respect of premises disclosed in Note 6(c) below.

	2004 \$'000	2003 \$'000
(c) Other items:		
Costs of inventories sold (Note (i))	93,620	95,547
Auditors' remuneration – audit services	855	200
Depreciation	3,813	3,214
Impairment loss on fixed assets	–	804
Operating lease charges in respect of premises		
– minimum lease payments	1,806	1,897
– contingent rental	134	–
Management fees (note 33) (Note (ii))	–	2,500
Research and development costs (Note (iii))	1,715	1,502
Write back of provision for bad and doubtful debts	(532)	(447)

Notes:

- (i) Cost of inventories includes \$4,807,000 (2003: \$4,493,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.
- (ii) Management fees comprise staff costs of \$Nil (2003: \$706,010) which are also included in the total amount of staff costs disclosed above.
- (iii) Research and development costs comprise staff costs of \$289,000 (2003: \$654,000) which are also included in the total amount of staff costs disclosed above.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004 \$'000	2003 \$'000
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Tax for the year	4,401	2,848
(Over)/under-provision in respect of prior years	(5)	49
	<b>4,396</b>	<b>2,897</b>
<b>Current tax – Outside Hong Kong</b>		
Provision for PRC income tax	2,829	2,044
Tax refund	(2,649)	(1,338)
	<b>180</b>	<b>706</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 27(b))	478	327
	<b>5,054</b>	<b>3,930</b>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. The increase is taken into account in the preparation of the Group's financial statements for the year ended 31 March 2004. Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 March 2004 is calculated at 17.5% (2003: 16%) of the estimated assessable profits for the year.

Unless tax reliefs are available to the Group, the provision for current income tax in the People's Republic of China (the "PRC") is based on a statutory rate of 33% of the assessable income determined in accordance with the relevant income tax rules and regulations of the PRC.

Profits of Kunming Jida Pharmaceutical Company Limited ("KJP") were subject to PRC income tax at 24%. As KJP is recognised as a new technology enterprise, according to Provisions on the Tax Policy of State High Technology Development Zone, Kunming, KJP is entitled to a reduced tax rate of 15%. On 18 January 2002, KJP received an approval document from the local tax bureau, subject to annual application, a 50% tax relief for the period up to 31 December 2004. As stipulated by Implementation Procedures of the Ministry of Finance on the Adoption of Rules Governing Preferential Tax Treatments in the "Provisions of the State Council for the Encouragement of Foreign Investment", the minimum PRC income tax rate applicable to a new high technology enterprise is 10%. Accordingly, KJP was granted a preferential tax rate of 10% from 1 January 2002 to 31 December 2004 pursuant to approval documents issued by the local tax bureau on 14 March 2003 and 17 January 2004 respectively.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

### (a) Taxation in the consolidated income statement represents: (Continued)

Pursuant to notices issued by the local tax bureau, PRC income tax of Rmb2,808,112 (2003: Rmb1,418,182) was refunded to KJP in relation to the reinvestment of profits and purchase of equipment produced in the PRC for technological improvement in accordance with the relevant tax rules and regulations.

Tax refund is credited to the income statement as a reduction in the tax charge for the year when the tax refund is approved. There is no assurance that the Group will receive such tax refund in the future.

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004 \$'000	2003 \$'000
Profit before tax	57,582	43,675
Notional tax on profit before tax, calculated at the rates applicable	7,523	5,392
Tax effect of non-deductible expenses	98	62
Tax effect of non-taxable revenue	(48)	(309)
Tax refund	(2,649)	(1,338)
Others	135	74
(Over)/under-provision in prior years	(5)	49
Actual tax expense	5,054	3,930

## 8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 \$'000	2003 \$'000
Fees	160	–
Salaries and other emoluments	2,460	1,833
Retirement scheme contributions	21	21
	2,641	1,854

Included in the directors' remuneration were fees of \$160,000 (2003: \$Nil) paid to independent non-executive directors during the year.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 8 DIRECTORS' REMUNERATION (Continued)

A director was granted share options during the year under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 26.

The remuneration of the directors is within the following bands:

	2004 Number of directors	2003 Number of directors
\$Nil – \$1,000,000	4	3
\$1,000,000 – \$1,500,000	1	–

During the year, no emoluments (2003: Nil) were paid by the Group to the directors or any of the five highest paid individuals (note 9) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors or any of the five highest paid individuals (note 9) have waived or agreed to waive any emoluments during the current and prior years.

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2003: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2003: two) individuals are as follows:

	2004 \$'000	2003 \$'000
Salaries and other emoluments	1,317	952
Discretionary bonuses	314	–
Retirement scheme contributions	36	–
	<b>1,667</b>	<b>952</b>

The emoluments of the three (2003: two) individuals with the highest emoluments are within the following bands:

	2004 Number of individuals	2003 Number of individuals
\$Nil – \$1,000,000	3	2

## 10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of \$336,000 (2003: \$Nil) which has been dealt with in the financial statements of the Company.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 11 DIVIDENDS

### (a) Dividends attributable to the year

	2004 \$'000	2003 \$'000
Final dividend proposed after the balance sheet date of \$0.013 per share	6,500	16,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

The dividend per share and the number of shares ranking for dividend for the year ended 31 March 2003 are not presented as such information is not meaningful having regard to the consolidated financial statements.

### (b) Dividends attributable to the previous financial year, approved and paid during the year prior to listing

	2004 \$'000	2003 \$'000
Final dividends in respect of the previous financial year, approved and paid during the year	16,000	8,000

Prior to listing, on 20 September 2002 and 14 July 2003, certain subsidiaries of the Group declared and approved final dividends of \$8,000,000 and \$16,000,000 in respect of the years ended 31 March 2002 and 2003 respectively to the then shareholders of these subsidiaries.

The dividend per share and the number of shares ranking for dividend are not presented above as such information is not meaningful having regard to the consolidated financial statements.

## 12 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2004 is based on the profit attributable to shareholders of \$41,019,000 and the weighted average of 418,750,000 ordinary shares in issue during the year. The calculation of basic earnings per share for the year ended 31 March 2003 was based on the profit attributable to shareholders of \$30,813,000 and on the 350,000,000 ordinary shares of the Company outstanding after the Group's Reorganisation and capitalisation issue (note 28).

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 12 EARNINGS PER SHARE (Continued)

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholder of \$41,019,000 and the weighted average of 418,751,543 ordinary shares after adjusting the effect of all dilutive potential shares under the Company's share option scheme. There were no potential dilutive ordinary shares in issue during the year ended 31 March 2003.

### (c) Reconciliation

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	418,750,000	–
Deemed issue of ordinary shares for no consideration	1,543	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	418,751,543	–

## 13 CHANGES IN ACCOUNTING POLICIES

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 April 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 3(j). There is no effect on the Group's net profit and net assets for the years presented as a result of the adoption of this accounting policy.

## 14 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments, information of which is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

### (i) Pharmaceutical products

Manufacturing and sale of pharmaceutical products.

### (ii) Trading

Trading of pharmaceutical products.

### (iii) Health care products

Manufacturing and sale of health care products.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 14 SEGMENT REPORTING (Continued)

	Pharmaceutical products		Trading		Health care products		Inter-segment elimination		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	146,336	128,361	48,093	51,286	8,521	9,115	-	-	202,950	188,762
Inter-segment revenue	4,702	4,831	-	-	-	-	4,702	4,831	-	-
<b>Total</b>	<b>151,038</b>	<b>133,192</b>	<b>48,093</b>	<b>51,286</b>	<b>8,521</b>	<b>9,115</b>	<b>4,702</b>	<b>4,831</b>	<b>202,950</b>	<b>188,762</b>
Segment results	43,429	28,642	18,123	20,459	2,299	1,109	4,702	4,831	59,149	45,379
Unallocated operating income and expenses									(294)	(104)
Profit from operations									58,855	45,275
Finance costs									(1,273)	(1,600)
Taxation									(5,054)	(3,930)
Minority interests									(11,509)	(8,932)
Profit attributable to shareholders									41,019	30,813
Depreciation for the year	3,366	2,863	428	341	19	10	-	-	3,813	3,214
Impairment loss for the year	-	-	-	804	-	-	-	-	-	804
Segment assets	182,623	91,737	44,939	34,376	1,151	5,619	-	-	228,713	131,732
Unallocated assets									98,721	50,229
<b>Total assets</b>									<b>327,434</b>	<b>181,961</b>
Segment liabilities	17,478	28,266	9,131	9,767	399	1,192	-	-	27,008	39,225
Unallocated liabilities									99,136	37,364
<b>Total liabilities</b>									<b>126,144</b>	<b>76,589</b>
Capital expenditure incurred during the year	87,127	6,081	501	13,107	-	78	-	-	87,628	19,266

The Group operates predominantly in the PRC. Accordingly, geographical segment information is not presented.



# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 15 FIXED ASSETS

### The Group

	Land and buildings \$'000	Motor vehicles \$'000	Plant and machinery \$'000	Furniture, fixtures and equipment \$'000	Total \$'000
<b>Cost:</b>					
At 1 April 2003	24,035	1,867	25,661	2,918	54,481
Additions					
– through acquisition of a subsidiary	11,400	–	–	–	11,400
– others	3,463	637	1,085	1,024	6,209
Disposals	–	(252)	–	–	(252)
Transfer from construction in progress (note 16)	12,085	–	790	–	12,875
At 31 March 2004	50,983	2,252	27,536	3,942	84,713
<b>Accumulated depreciation and impairment loss:</b>					
At 1 April 2003	3,327	1,275	6,756	695	12,053
Charge for the year	899	186	2,273	455	3,813
Written back on disposal	–	(224)	–	–	(224)
At 31 March 2004	4,226	1,237	9,029	1,150	15,642
<b>Net book value:</b>					
At 31 March 2004	46,757	1,015	18,507	2,792	69,071
At 31 March 2003	20,708	592	18,905	2,223	42,428

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 15 FIXED ASSETS (Continued)

- (a) An analysis of net book value of land and buildings is as follows:

	2004 \$'000	2003 \$'000
Hong Kong		
– Long leases	10,996	11,200
Outside Hong Kong		
– Medium-term leases	35,761	9,508
	<b>46,757</b>	<b>20,708</b>

Long leases represent leases with an unexpired period not less than 50 years. Medium-term leases represent leases with an unexpired period less than 50 years but more than 10 years.

- (b) The sluggish property market has caused the Group to assess the recoverable amount of the properties held. Based on that assessment, the carrying amount of the properties was written down by \$804,000 during the year ended 31 March 2003. The estimate of recoverable amount was determined based on open market value.
- (c) The following fixed assets are pledged to secure certain bank loans (note 22) and banking facilities granted to the Group:

	2004 \$'000	2003 \$'000
<b>Net book value of pledged assets:</b>		
Buildings in Hong Kong	6,856	7,000

- (d) The Group is in the process of applying for land use right certificates or building ownership certificates for certain land and buildings situated in the PRC with a net book value of approximately \$27,383,000 (2003: \$2,358,000). In the opinion of the directors there is no legal impediment in obtaining such certificates.

## 16 CONSTRUCTION IN PROGRESS

	The Group	
	2004 \$'000	2003 \$'000
At 1 April	4,520	205
Additions		
– through acquisition of a subsidiary	9,052	–
– others	60,967	6,028
Transfer to fixed assets (note 15)	(12,875)	(1,713)
At 31 March	<b>61,664</b>	<b>4,520</b>

Construction in progress at 31 March 2004 primarily represents costs incurred in connection with the Group's new GMP production facility in Kunming.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 17 INVESTMENT SECURITIES

	The Group	
	2004 \$'000	2003 \$'000
Unlisted equity securities, at cost	1,148	–

## 18 INVESTMENT IN SUBSIDIARIES

	The Company	
	2004 \$'000	2003 \$'000
Unlisted shares, at cost	82,380	–

The following list contains the particulars of subsidiaries. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company held by subsidiary		Principal activities
Jiwa Development Co. Ltd.	British Virgin Islands ("BVI")	100,000 shares of US\$0.5 each	100%	–	Investment holding
Jiwa International Limited	Hong Kong	1,000 shares of \$1,000 each	–	100%	Trading of pharmaceutical products
Jiwa Pharmaceuticals Limited	Hong Kong	1,000 shares of \$1,000 each	–	100%	Investment holding
Tech-Medi Development Limited	Hong Kong	200 shares of \$1,000 each	–	100%	Trading of health care products
Kunming Jida Pharmaceuticals Company Limited ("KJP") (Note (a))	PRC	Rmb71,710,000	–	65%	Manufacturing and trading of pharmaceutical products
Yunnan Jiwa Pharm-Tech Co., Ltd. ("YJPT") (Notes (a) and (b))	PRC	US\$800,000	–	100%	Research and development of pharmaceutical products

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 18 INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

- (a) KJP and YJPT are limited companies incorporated in the PRC.
- (b) On 7 February 2004, the Group acquired the entire equity interest in YJPT for a consideration of \$6,240,000 satisfied in cash. The effect of the acquisition was not significant to the Group.

All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the Group financial statements.

## 19 INVENTORIES

	The Group	
	2004	2003
	\$'000	\$'000
Raw materials	8,566	11,986
Work in progress	3,930	4,607
Finished goods	5,649	7,887
	<b>18,145</b>	<b>24,480</b>

None of the inventories is stated at net realisable value.

## 20 ACCOUNTS AND BILLS RECEIVABLE

Customers of existing products are generally granted with credit terms ranging from 30 days to 180 days. Customers that purchase new products being launched can be granted credit terms of up to 360 days. An ageing analysis of the accounts and bills receivable is as follows:

	The Group	
	2004	2003
	\$'000	\$'000
Within 3 months	51,689	36,335
Aged over 3 months but less than 6 months	7,625	4,914
Aged over 6 months	2,298	4,453
Less: Provision	—	(532)
	<b>61,612</b>	<b>45,170</b>
Bills receivable	3,679	—
	<b>65,291</b>	<b>45,170</b>

All of the above balances are expected to be recovered within one year.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 21 ACCOUNTS AND BILLS PAYABLE

An ageing analysis of accounts and bills payable is as follows:

	The Group	
	2004 \$'000	2003 \$'000
Accounts payable		
– Due within 1 month or on demand	2,237	104
– Due after 1 month but within 3 months	14,553	16,145
– Due after 3 months but within 6 months	–	2,153
	16,790	18,402
Bills payable	6,329	7,009
	23,119	25,411

All of the above balances are expected to be settled within one year.

## 22 BANK LOANS AND OVERDRAFTS

At 31 March 2004, the bank loans and overdrafts were repayable as follows:

	The Group	
	2004 \$'000	2003 \$'000
Within 1 year or on demand	19,322	31,477
After 1 year but within 2 years	–	4,342
After 2 years but within 5 years	72,706	–
After 5 years	1,938	–
	74,644	4,342
	93,966	35,819

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 22 BANK LOANS AND OVERDRAFTS (Continued)

At 31 March 2004, the bank loans and overdrafts were secured as follows:

	The Group	
	2004 \$'000	2003 \$'000
Secured bank overdrafts	–	689
Bank loans		
– secured	4,343	6,828
– unsecured	89,623	28,302
	<b>93,966</b>	<b>35,819</b>

During the year ended 31 March 2003, banking facilities of certain subsidiary were secured by a legal charge over a property of the Group with a carrying value of \$7,000,000 at 31 March 2003, certain properties owned by Jiwa Investment Limited, a related company, and personal guarantees given by the directors. On 9 October 2003, the banking facilities were replaced by new bank facilities secured by a legal charge over a property of the Group with a carrying value of \$6,856,000 at 31 March 2004.

Such banking facilities of the Group totalling \$21,000,000 (2003: \$23,369,000) were utilised to the extent as set out below:

	The Group	
	2004 \$'000	2003 \$'000
Letters of credit	6,377	10,652
Bank loans and overdrafts	4,343	7,517
	<b>10,720</b>	<b>18,169</b>

## 23 AMOUNTS DUE TO A RELATED COMPANY

Amounts due to a related company were unsecured, interest-free and repayable on demand.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 24 AMOUNTS DUE FROM DIRECTORS

The balance of amounts due from directors at 31 March 2004 is \$Nil (2003: \$Nil).

Amounts due from directors were unsecured, interest-free and repayable on demand.

The maximum outstanding balance of the amounts due from directors during the year were analysed as follows:

	The Group	
	2004 \$'000	2003 \$'000
Lau Yau Bor	–	–
Chan Hing Ming	–	–
Lau Kin Tung	–	283

## 25 RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement scheme (the “Scheme”) organised by the PRC municipal government whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on 25% of the payroll costs of the eligible employees. The PRC municipal government is responsible for the entire pension obligations payable to the retired employees. The Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Scheme.

The Group also operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the scheme vest immediately.

## 26 EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and consultants and advisers to the Group (subject to the eligibility requirements) to take up options to subscribe for shares of the Company representing up to a maximum of 10% of the shares in issue from time to time. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vested are exercisable within a period of five years from date of grant. Each option gives the holder the right to subscribe for one share.



# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 26 EQUITY COMPENSATION BENEFITS (Continued)

### (a) Movements in share options

	2004 Number	2003 Number
At 1 April	–	–
Issued	9,266,000	–
Exercised	–	–
At 31 March	9,266,000	–
Options vested at 31 March	9,266,000	–

### (b) Terms of unexpired and unexercised share options at the balance sheet date

Date granted	Market price at the date of grant	Exercise period	Exercise price	2004 Number	2003 Number
31 March 2004	\$0.375	31 March 2004 to 30 March 2009	\$0.377	9,226,000	–

### (c) Details of share options granted during the year

Exercise period	Exercise price	2004 Number	2003 Number
31 March 2004 to 30 March 2009	\$0.377	9,226,000	–

The consideration paid by each individual for the options granted was \$1.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 27 INCOME TAX IN THE BALANCE SHEET

(a) All of the current tax payable and recoverable are expected to be settled within one year.

(b) **Deferred tax assets of the Group recognised:**

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Fixed assets \$'000	Internally generated intangible assets \$'000	Others \$'000	Total \$'000
<b>Deferred tax arising from:</b>				
At 1 April 2002	2,661	3,521	324	6,506
Charged to consolidated income statement	(116)	(102)	(109)	(327)
At 31 March 2003 and 1 April 2003	2,545	3,419	215	6,179
Charged to consolidated income statement	(86)	(177)	(215)	(478)
At 31 March 2004	2,459	3,242	–	5,701

## 28 SHARE CAPITAL

The Group

	2004		2003	
	No. of shares	Amount \$'000	No. of shares	Amount \$'000
<b>Authorised:</b>				
Ordinary shares of \$0.01 each	1,000,000,000	10,000	–	–
Ordinary shares of \$1,000 each	–	–	2,200	2,200
<b>Issued and fully paid:</b>				
At 1 April	2,200	2,200	2,200	2,200
Capital elimination on consolidation	(2,200)	(2,200)	–	–
Issuance of shares (Note (iv))	20,000,000	200	–	–
Capitalisation issue (Note (v))	330,000,000	3,300	–	–
Shares issued under the placing and public offer (Note (vi))	150,000,000	1,500	–	–
	500,000,000	5,000	2,200	2,200

## NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 28 SHARE CAPITAL (Continued)

Notes:

- (i) The share capital in the consolidated balance sheet as at 31 March 2003 represented the aggregate amount of the nominal value of the issued share capitals of Jiwa International Limited, Jiwa Pharmaceuticals Limited and Tech-Medi Development Limited, the subsidiaries of the Company.
- (ii) The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) on 19 June 2002 with an authorised share capital of \$100,000 divided into 10,000,000 shares ("nil-paid shares"), all of which were allotted and issued nil-paid. Accordingly, the share capital of the Company at 31 March 2003 was \$Nil.
- (iii) Pursuant to the written resolution of the shareholders of the Company dated 24 September 2003, the authorised share capital of the Company was increased from \$100,000 to \$10,000,000 by the creation of an additional 990,000,000 shares of \$0.01 each.
- (iv) Pursuant to the written resolutions of the shareholders of the Company passed on 24 September 2003, as part of the Reorganisation and as consideration for the acquisition of the entire share capital of Jiwa Development Co. Ltd., the Company issued 10,000,000 shares of \$0.01 each, credited as fully paid shares at par and the 10,000,000 nil-paid shares (note (ii) above) were credited as fully paid.
- (v) Pursuant to the written resolutions of the shareholders of the Company passed on 24 September 2003, an amount of \$3,300,000 standing to the credit of the Company's share premium account was applied in paying up in full at par 330,000,000 shares of \$0.01 each for allotment and issue to persons whose names appeared on the register of members of the Company at the close of business on 24 September 2003 (as nearly as possible without involving fractions) to its or their then existing shareholdings in the Company.
- (vi) On 14 October 2003, an aggregate of 150,000,000 shares of \$0.01 each were issued and offered for subscription at a price of \$0.48 per share upon the listing of the Company's shares on the Stock Exchange of Hong Kong Limited. The Group raised approximately \$57,409,000 (including interest income) net of related expenses from the share offer.
- (vii) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 29 RESERVES

### The Group

#### Movements in reserves

	Share premium	Contributed surplus	General reserve fund (Note (iii))	Enterprise expansion fund (Note (iii))	Capital reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 April 2002	–	–	–	2,830	–	53,897	56,727
Dividend approved in respect of the previous year (note 11)	–	–	–	–	–	(8,000)	(8,000)
Profit for the year	–	–	–	–	–	30,813	30,813
Transfer to reserves (Note (iii))	–	–	25	25	–	(50)	–
At 31 March 2003	–	–	25	2,855	–	76,660	79,540
At 1 April 2003	–	–	25	2,855	–	76,660	79,540
Dividend approved in respect of the previous year (note 11)	–	–	–	–	–	(16,000)	(16,000)
Arising on reorganisation	–	2,000	–	–	–	–	2,000
Transfer to reserves (Note (iii))	–	–	17	17	–	(34)	–
Capitalisation of enterprise expansion fund (Note (iii))	–	–	–	(2,830)	2,830	–	–
Share premium from issuance of shares	70,500	–	–	–	–	–	70,500
Issuing costs	(14,591)	–	–	–	–	–	(14,591)
Capitalisation issue (note 28(v))	(3,300)	–	–	–	–	–	(3,300)
Profit for the year	–	–	–	–	–	41,019	41,019
At 31 March 2004	52,609	2,000	42	42	2,830	101,645	159,168

### The Company

	Share premium \$'000	Contributed surplus \$'000	Accumulated loss \$'000	Total \$'000
At 1 April 2002 and 2003	–	–	–	–
Arising on Reorganisation (Note (i))	–	82,180	–	82,180
Loss for the year	–	–	(336)	(336)
Share premium from issuance of shares	70,500	–	–	70,500
Capitalisation issue (note 28(v))	(3,300)	–	–	(3,300)
Issuing costs	(14,591)	–	–	(14,591)
At 31 March 2004	52,609	82,180	(336)	134,453

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 29 RESERVES (Continued)

Notes:

- (i) Pursuant to the Reorganisation, the Company became the holding company of the Group on 24 September 2003. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provision under section 54 of the Companies Act.
- (ii) Upon completion of the capital verification on 25 April 2003, KJP capitalised the enterprise expansion fund of Rmb3,000,000 to its registered share capital according to a board resolution dated 18 January 2003. The amount was recognised as capital reserve in the consolidated balance sheet.
- (iii) In accordance with the articles of association and equity joint venture agreement, the subsidiaries in the PRC are required to set up a general reserve fund and an enterprise expansion fund, which are non-distributable. The transfers of these reserves are at discretion of the directors of the respective subsidiaries.

## 30 ACQUISITION OF A SUBSIDIARY

On 7 February 2004, the Group acquired the entire equity interest of YJPT for a consideration of \$6,240,000, satisfied in cash.

	2004 \$'000
<b>Net assets acquired</b>	
Fixed assets	11,400
Construction in progress	9,052
Investment securities	1,148
Cash and cash equivalents	9,911
Prepayments and other receivables	8,476
Accrued expenses and other payables	(728)
Bank loans	(33,019)
Total purchase consideration paid for net identifiable assets and liabilities acquired, satisfied in cash	6,240
Less: Cash of the subsidiary acquired	(9,911)
Net cash inflow in respect of the acquisition of the subsidiary	(3,671)

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 31 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	87,327	41,920	11,018	–
Cash and cash equivalents in the balance sheet	87,327	41,920	11,018	–
Bank overdrafts (note 22)	–	(689)		
Cash and cash equivalents in the cash flow statement	87,327	41,231		

## 32 COMMITMENTS

- (a) At 31 March 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2004	2003
	\$'000	\$'000
Within 1 year	486	800
After 1 year but within 5 years	34	113
	520	913

The Group leases a number of properties under operating leases. The leases run for periods from one year to two years. Certain leases include contingent rentals which are charged at fixed rates on gross sales receipts.

- (b) Capital commitments outstanding at 31 March 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	\$'000	\$'000
Contracted for		
– acquisition of fixed assets	16,791	13,021
– acquisition of technical know-how	1,402	3,340
	18,193	16,361
Authorised but not contracted for		
– acquisition of fixed assets	–	52,757
	18,193	69,118

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 33 RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties:

### (a) Recurring

	Note	2004 \$'000	2003 \$'000
Sales of goods:			
– Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group")	(i)	24,366	25,328
– Yunnan Jiwa Pharm Logistics Company Limited ("YJPL")	(ii)	16,862	6,165
Purchases of goods:			
– Yunnan Pharm Group	(i)	436	526
Rentals paid			
– Mr Lau Yau Bor	(iii)	58	79
– Jiwa Investment Limited	(iv)	1,116	651

Notes:

- (i) The Group sold pharmaceutical products to Yunnan Pharm Group and purchased raw materials from Yunnan Pharm Group at a price calculated with reference to the price charged to other independent customers. Yunnan Pharmaceutical and Industrial Corporation Limited is the minority shareholder of KJP.
- (ii) YJPL is controlled by certain directors of the Company. Historically, sales to YJPL were based on the prevailing market prices. Upon the listing of the Company on the Stock Exchange of Hong Kong Limited, sales to YJPL were at a price calculated with reference to the actual production cost incurred plus a margin.
- (iii) A director of the Company, Mr Lau Yau Bor, leased certain properties in the PRC to the Group. The terms were negotiated on an arm's length basis and the rental is in accordance with the prevailing market rate.
- (iv) Jiwa Investment Limited, which is controlled by certain directors of the Company, leased staff quarters and office premises to the Group. The terms were negotiated on an arm's length basis and rentals are determined in accordance with the prevailing market rate.



# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (b) Non-recurring

	Note	2004 \$'000	2003 \$'000
Management fees	(i)	–	2,500
Transfer of property	(ii)	–	4,500
Research and development cost	(iii)	–	94
Assignment of accounts receivable	(iv)	–	12,421
Acquisition of a subsidiary	(v)	6,240	–

Notes:

- (i) Management fees were paid to Jiwa Investment Limited, for administrative support and lease of office premises provided to the Group, which were determined at a cost basis. The management fee arrangement ceased in September 2002.
- (ii) On 1 September 2002, the Group entered into an agreement with Jiwa Investment Limited to acquire an office premises located in Hong Kong at the prevailing market value of \$4,500,000.
- (iii) The Group paid an amount of Rmb100,000 to YJPT which was previously controlled by certain directors of the Company. YJPT was subsequently acquired by the Group on 7 February 2004. YJPT assisted in certain research and development activities for a new product.
- (iv) On 31 July 2002, YJPL, which is controlled by certain directors of the Company, assigned certain of its accounts receivable totalling Rmb13,166,000 to the Group in settlement of its liability to the Group. Such balance was fully settled as at 31 March 2004.
- (v) On 7 February 2004, the Group acquired the entire equity interest of YJPT from Jiwa Pharm and Chemicals Limited, which is controlled by the directors of the Company, for a consideration of \$6,240,000, satisfied in cash.
- (vi) As at 31 March 2003, the Group's banking facilities of approximately \$23,369,000 were secured by legal charges over certain properties owned by Jiwa Investment Limited and personal guarantees given by certain directors. These legal charges were released on 9 October 2003.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of the Group's business.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 33 RELATED PARTY TRANSACTIONS (Continued)

### (c) Amounts due from/(to) related companies at 31 March 2004

#### (i) Amounts due from related companies

	The Group	
	2004 \$'000	2003 \$'000
YJPL	29	–
Jiwa Pharm and Chemicals Limited	1,585	–
	<b>1,614</b>	<b>–</b>

#### (ii) Amounts due to a related company

	The Group	
	2004 \$'000	2003 \$'000
Yunnan Pharmaceutical and Industrial Corporation Limited	2,972	8,585

#### (iii) Included under accounts and bills receivables:

	2004 \$'000	2003 \$'000
Yunnan Pharm Group	3,790	1,693
YJPL	17,635	4,846
	<b>21,425</b>	<b>6,539</b>

## FOUR YEARS FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

The results of the Group for the last four financial years are as follows:

	Year ended 31 March			
	2001	2002	2003	2004
	\$'000	\$'000	\$'000	\$'000
<b>Turnover</b>	177,909	186,395	188,762	202,950
<b>Profit from operations</b>	31,706	39,679	45,275	58,855
Finance cost	(364)	(839)	(1,600)	(1,273)
<b>Profit from ordinary activities before taxation</b>	31,342	38,840	43,675	57,582
Taxation	(735)	(5,029)	(3,930)	(5,054)
Minority interests	(8,282)	(9,018)	(8,932)	(11,509)
<b>Profit attributable to shareholders</b>	22,325	24,793	30,813	41,019
<b>Earnings per share</b>				
Basic	6.38%	7.08%	8.80%	9.80%
Diluted	N/A	N/A	N/A	9.80%

## FOUR YEARS FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

The assets and liabilities of the Group for the last four financial years are as follows:

	At 31 March			
	2001	2002	2003	2004
	\$'000	\$'000	\$'000	\$'000
Fixed assets	16,599	31,495	42,428	69,071
Construction in progress	1,020	205	4,520	61,664
Investment securities	–	–	–	1,148
Deferred tax assets	6,548	6,506	6,179	5,701
	24,167	38,206	53,127	137,584
Current assets	96,511	129,409	128,834	189,850
Current liabilities	59,080	90,685	72,247	51,500
Net current assets	37,431	38,724	56,587	138,350
Total assets less current liabilities	61,598	76,930	109,714	275,934
Non-current liabilities	10,736	–	4,342	74,644
Minority interests	16,728	18,003	23,632	37,122
	34,134	58,927	81,740	164,168
Share capital	2,200	2,200	2,200	5,000
Reserves	31,934	56,727	79,540	159,168
	34,134	58,927	81,740	164,168

### Notes:

The Company was incorporated in Bermuda on 19 June 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company became the holding company of the Group on 24 September 2003 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 April 2000, rather than from 24 September 2003. Accordingly, the results of the Group for the four years ended 31 March 2004 have been prepared on the basis of merger accounting as if the Group structure immediately after the Reorganisation had been in existence since 1 April 2000. This financial summary includes the results of the Company and its subsidiaries with effect from 1 April 2000 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 March 2001, 2002 and 2003 are the combination of the balance sheets of the Company and its subsidiaries at 31 March 2001, 2002 and 2003. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the Group adopted a new accounting policy for deferred tax from 1 April 2003. There is no effect on the Group's net profits and net assets for the years presented as a result of the adoption of this accounting policy.

## INVESTOR RELATIONS

### FINANCIAL CALENDAR

Announcement of final results	6 July 2004
Closure of register of members	15 September 2004 – 23 September 2004, (both days inclusive)
2004 Annual General Meeting	23 September 2004
Dividend payable	30 September 2004

### SHARE TRANSFERS

All share transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar and Transfer Office at the address given on this page for registration not later than 4 p.m. on 14 September 2004.

### COMPANY ENQUIRIES

Other enquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Bank of East Asia Harbour View Centre  
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### WEBSITE

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